

Virginia Department of Human Resource Management

STATE EMPLOYEE HEALTH BENEFITS TRENDS

SENATE FINANCE COMMITTEE
RICHMOND, VA • OCTOBER 19, 2017



HEALTHCARE TRENDS



Employer health care inflation will accelerate

- Lagged impact of economic recovery will drive costs higher



An unhealthy and aging workforce burdens employers and our economy

- Unhealthy behaviors continue to drift higher



Healthcare industry is slowly going through large delivery system transformation

- Delivery systems and pharmacy manufactures continue to gain pricing power
- Movement from volume to value adoption has slowed
- Robust pipeline of new drugs and continued unit price increases keep Rx costs high



Election impact will be felt by all stakeholders

- Uncertainty will not help mitigate trends

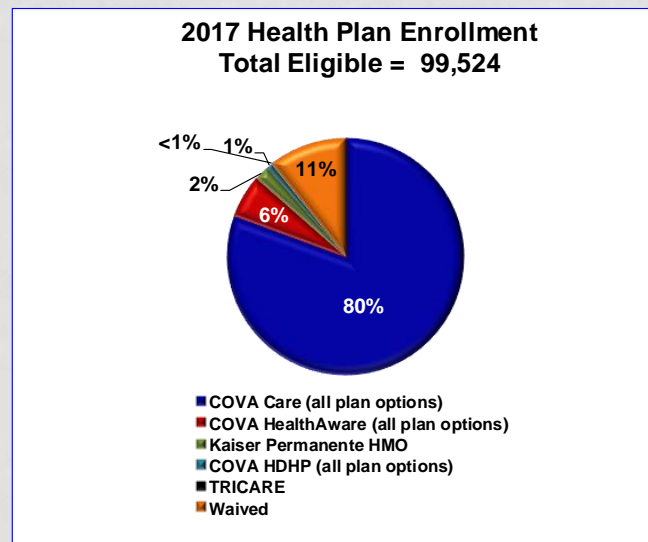
COMMONWEALTH OF VIRGINIA

SPECIFIC TREND FACTORS

- **Factors** projected to impact medical/pharmacy cost in FY19
 - Risk Avoidance
 - Erosion of Benefit Plan Provisions
 - Utilization
 - Unit cost increase
 - Specialty Drugs
 - Large claims

RISK AVOIDANCE

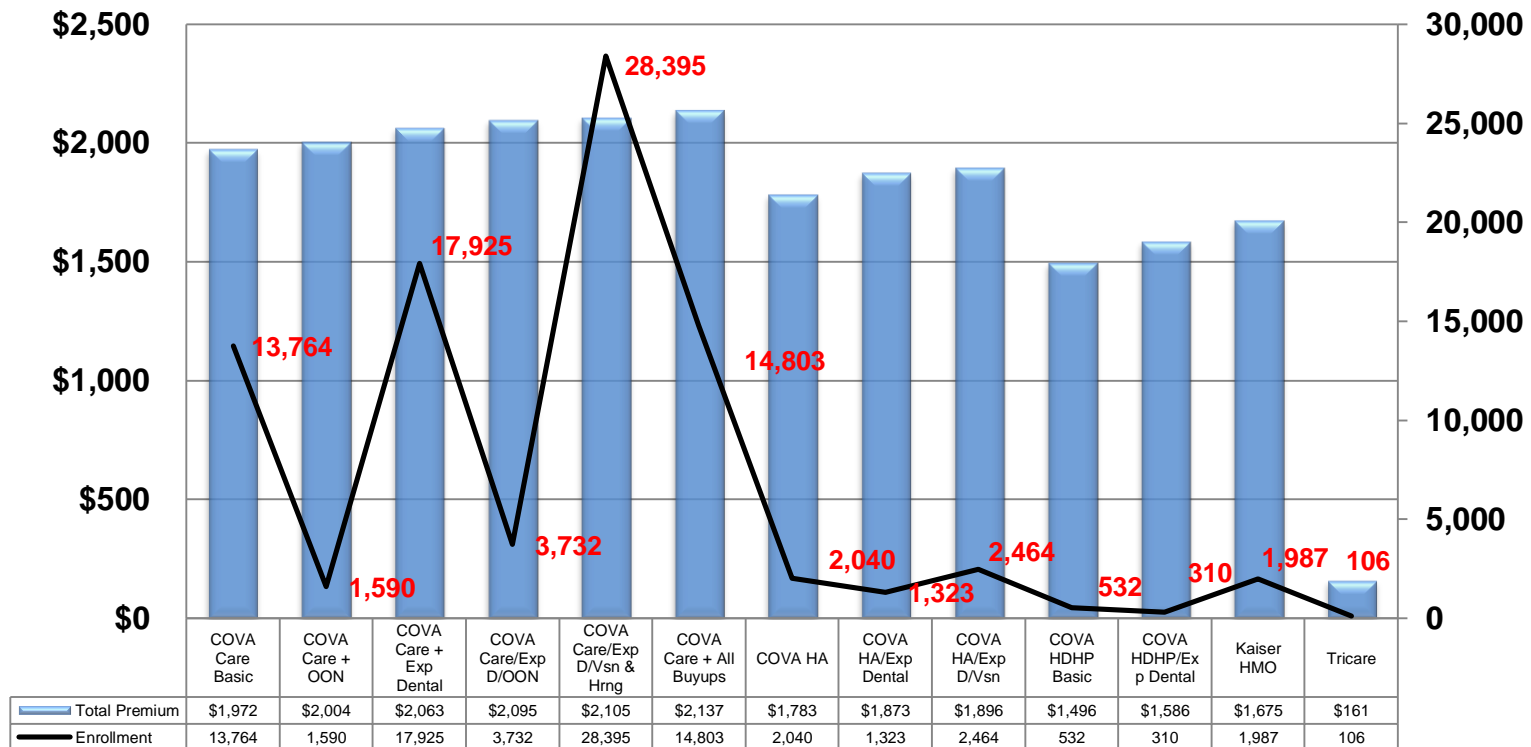
- **Risk avoidance** with members adverse to change
 - Majority of COVA Care enrollment in the **highest cost plans**
 - COVA Care OON with Expanded Dental/Vision
 - COVA Care with Expanded Dental/Vision
 - **No offset to trend** due to employee plan migration
 - HDHP
- **Trend Impact: 1-2% of total claims**



RISK AVOIDANCE - ENROLLMENT

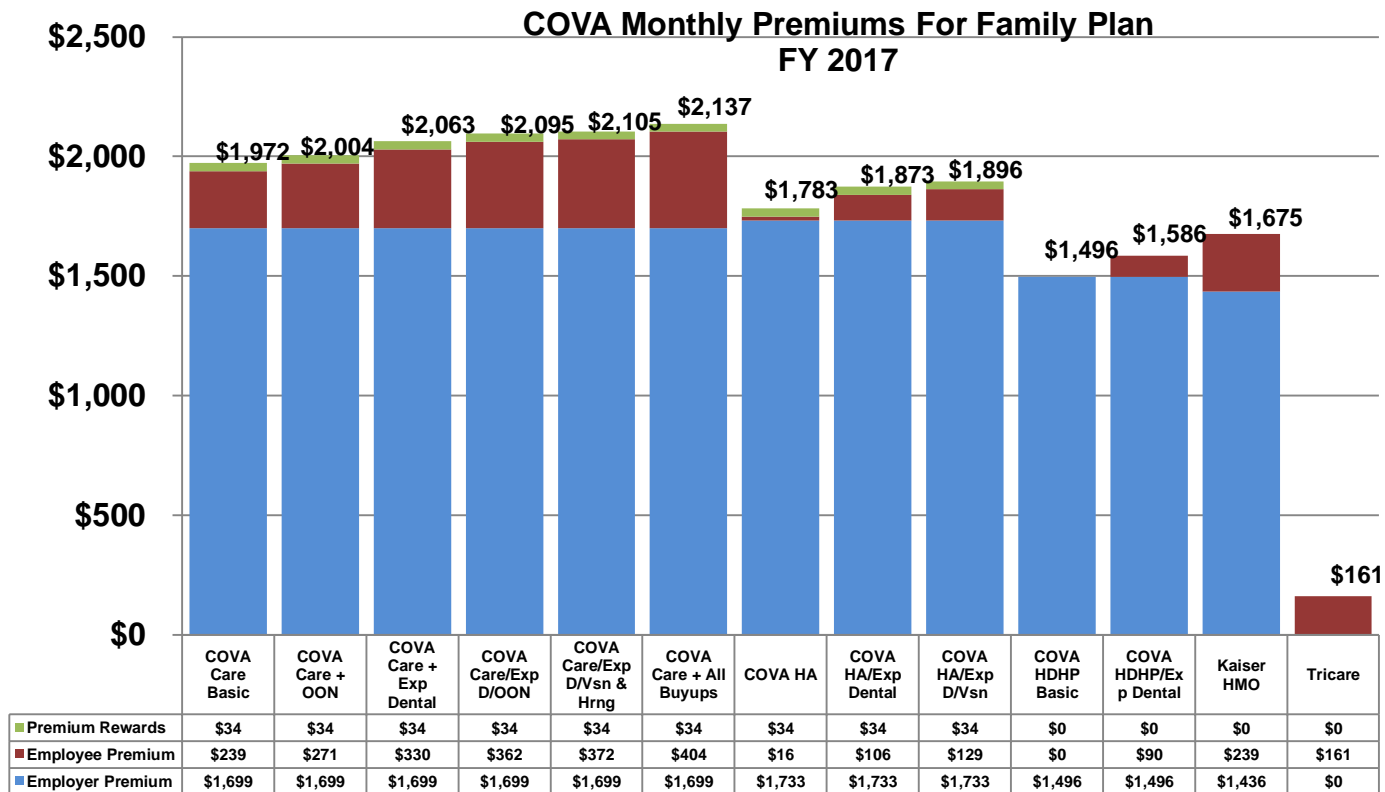
- **Cost of premium is not a driver** in plan selection

State Premiums and Employee Enrollment
FY 2017



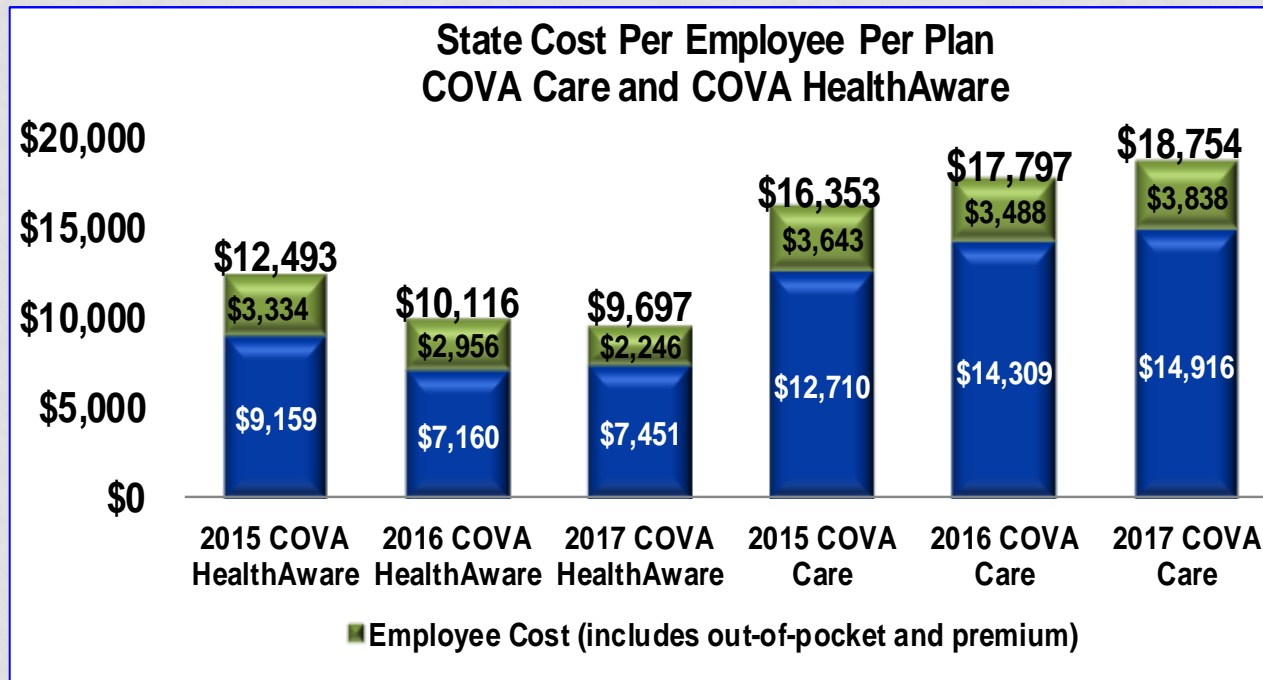
RISK AVOIDANCE - PREMIUMS

- 100% of the **plan buy ups** are paid for by employees



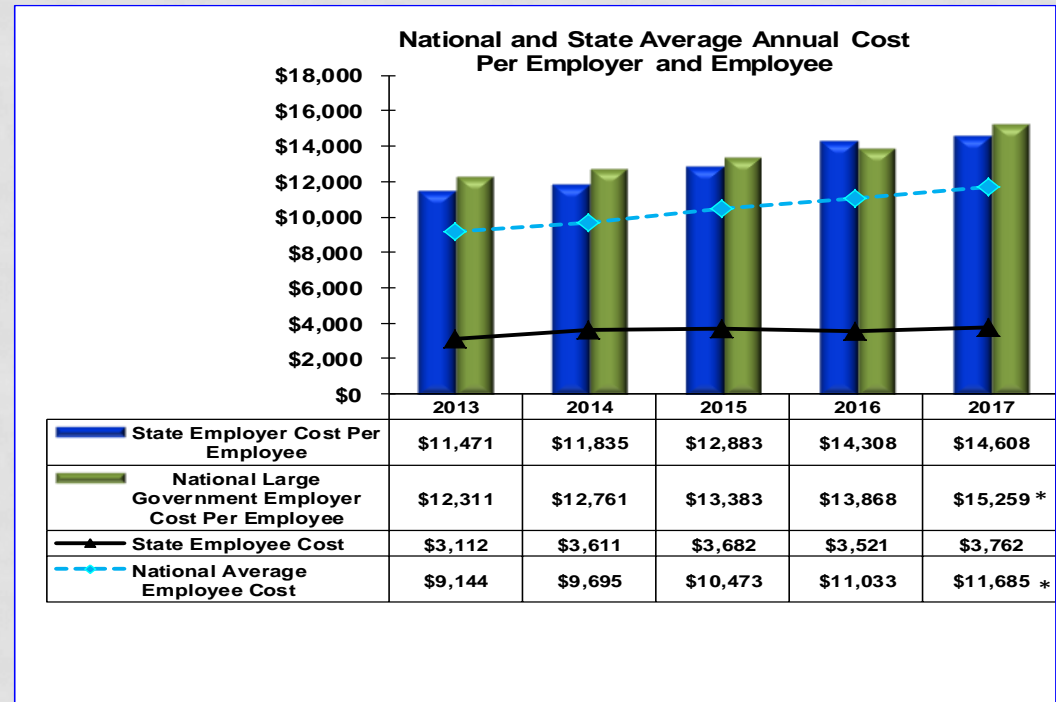
RISK AVOIDANCE – COST PER EMPLOYEE

- **Cost per employee varies** by plan
- While **COVA Care cost has increased** each of the last 3 years, **COVA HealthAware decreased** each year



EROSION OF BENEFIT PLAN PROVISIONS

- **Erosion of Benefit Plan Provisions** (leveraging) occurs when the value of specific benefit provisions diminishes because they do not change to keep up with health care inflation
- **Cost management** tools
 - **Deductibles**
 - **Out of Pocket Maximums**
- **Trend Impact: 1-2 % of total claims**



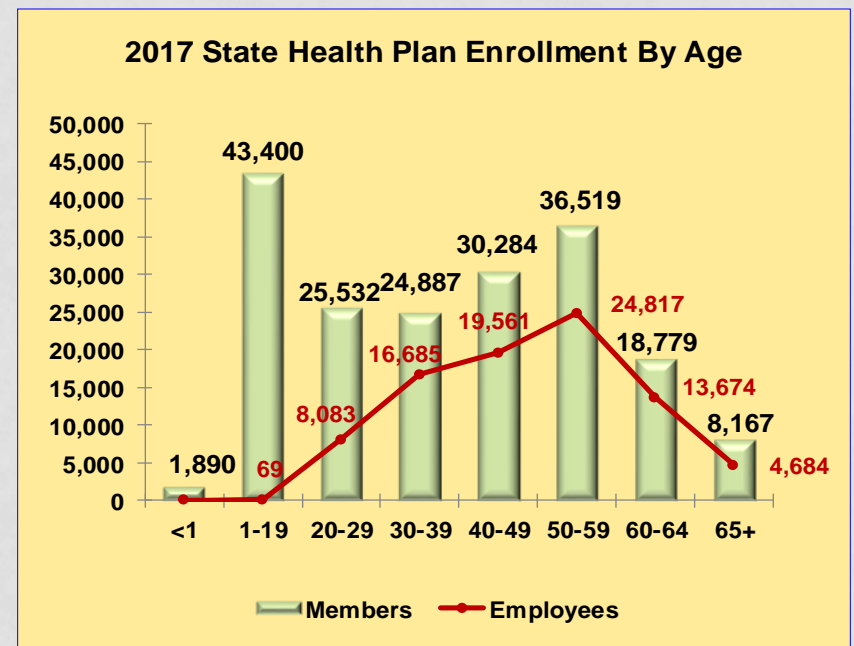
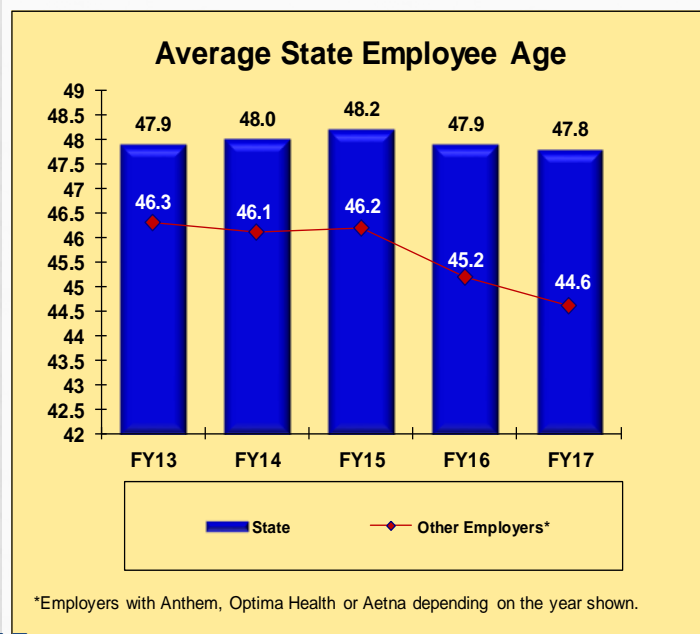
EROSION OF BENEFIT PLAN PROVISIONS – PLAN CHANGES

- **Plan design changes over the last 5 years** to address erosion

| Plan Design Changes FY 2014-FY 2018 | | | |
|-------------------------------------|-----------|--|-------------------|
| Plan Year | Plan | Change | Estimated Savings |
| FY 2014 | COVA Care | Increased ER Copay from \$125 to \$150 | \$909,000 |
| FY 2015 | COVA Care | Increased Rx Copay by \$5 at Retail for Tiers 2-4 (from \$25/40/50 to \$30/45/55) | \$9,120,000 |
| FY 2015 | COVA Care | Increased Rx Copay by \$10 at Mail for Tiers 2-4 (from \$50/80/100 to \$60/90/110) | \$17,926,000 |
| FY 2016 | COVA Care | Increased Plan Yr. Deductible from \$225 to \$300 for single and from \$450 to \$600 for 2 or more | \$2,245,000 |
| FY 2017 | None | None | None |
| FY 2018 | None | None | None |

UTILIZATION - AGE

- **Utilization** is greatly impacted by the age of the covered members
- COVA average age of 48 years is significantly over the marketplace “norm” of 41 years
- Members over 50 (35.2% of total membership) drove 57.8% of total claims
- **Trend Impact: 2-3% of total claims**

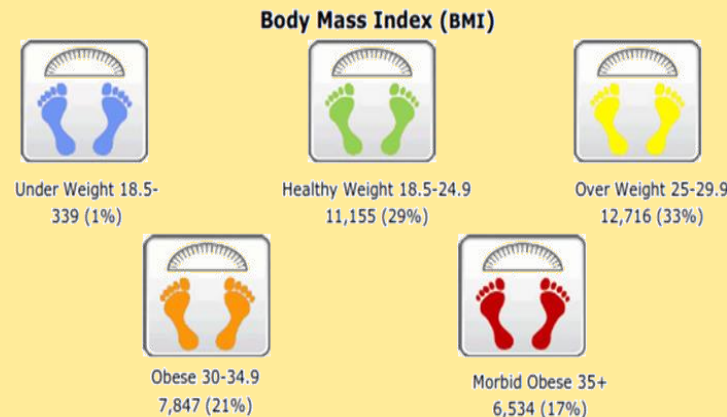


UTILIZATION - LIFESTYLE

- **Lifestyle-related health issues** and **chronic conditions** tied to obesity are generating more health care costs
- **70% of members are overweight or obese**, down from 74% in the prior year of those taking health risk assessments

2017 Weight of State Population

Body Mass Index (BMI)



Source: ActiveHealth Management

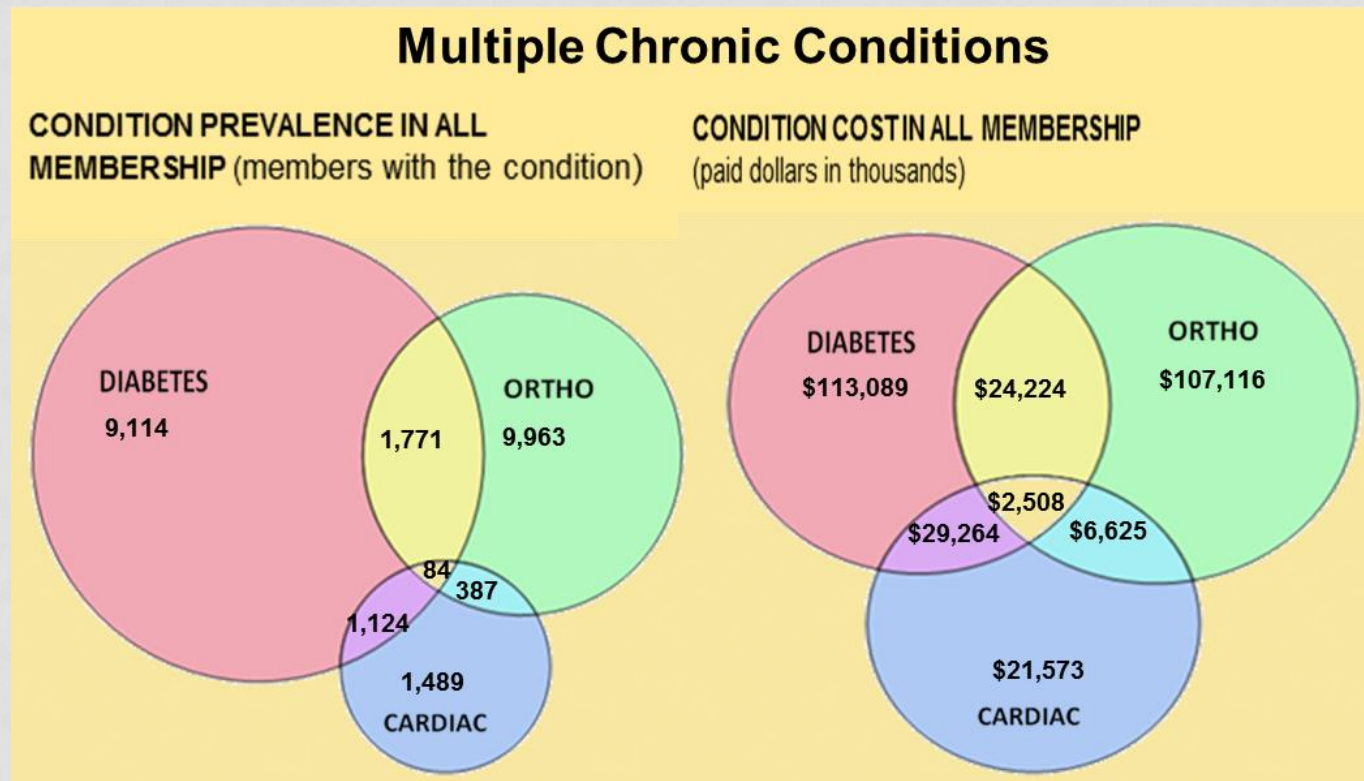
UTILIZATION – TOP TEN

- 79% of the medical and pharmacy costs were driven by these “Top Ten”

| “Top Ten” Claims Expense | | | |
|--|---|--|---|
| Medical Procedures | Chronic Uncontrolled Conditions | Chronic Controlled Conditions | Prescription Drugs |
| <ol style="list-style-type: none"> 1. Unclassified causes and preventive-related 2. Musculoskeletal 3. Oncology 4. Cardiovascular 5. Gastrointestinal 6. Obstetrics 7. Diabetes, Obesity & Lipid Disorders 8. Neurology 9. Behavioral Health 10. Pulmonary | <ol style="list-style-type: none"> 1. Unclassified causes and preventive-related 2. Musculoskeletal 3. Oncology 4. Cardiovascular 5. Gastrointestinal 6. Diabetes, Obesity & Lipid Disorders 7. Neurology 8. Behavioral Health 9. Pulmonary 10. Dermatology | <ol style="list-style-type: none"> 1. Osteoarthritis (except low back) 2. Coronary Artery Disease 3. Low Back Problems 4. Breast Cancer 5. Chronic kidney disease 6. Diabetes 7. Gallbladder disease 8. Colon cancer 9. Prostate cancer 10. Renal stones | <ol style="list-style-type: none"> 1. <i>Humira</i> Pen-rheumatoid arthritis 2. <i>Enbrel</i> - rheumatoid arthritis 3. <i>Harvoni</i>- hepatitis C 4. <i>Tecfidera</i> – multiple sclerosis 5. <i>Victoza 3-Pak</i> - diabetes 6. <i>Lantus solostar</i> - diabetes 7. <i>Januvia</i> - diabetes 8. <i>Metformin HCL ER</i> - diabetes 9. <i>Stelara</i> - psoriasis 10. <i>Gilenya</i>—multiple sclerosis |
| Cost \$934.6 million | Cost \$633.9 million | Cost \$126.2 million | Cost \$54.6 million |

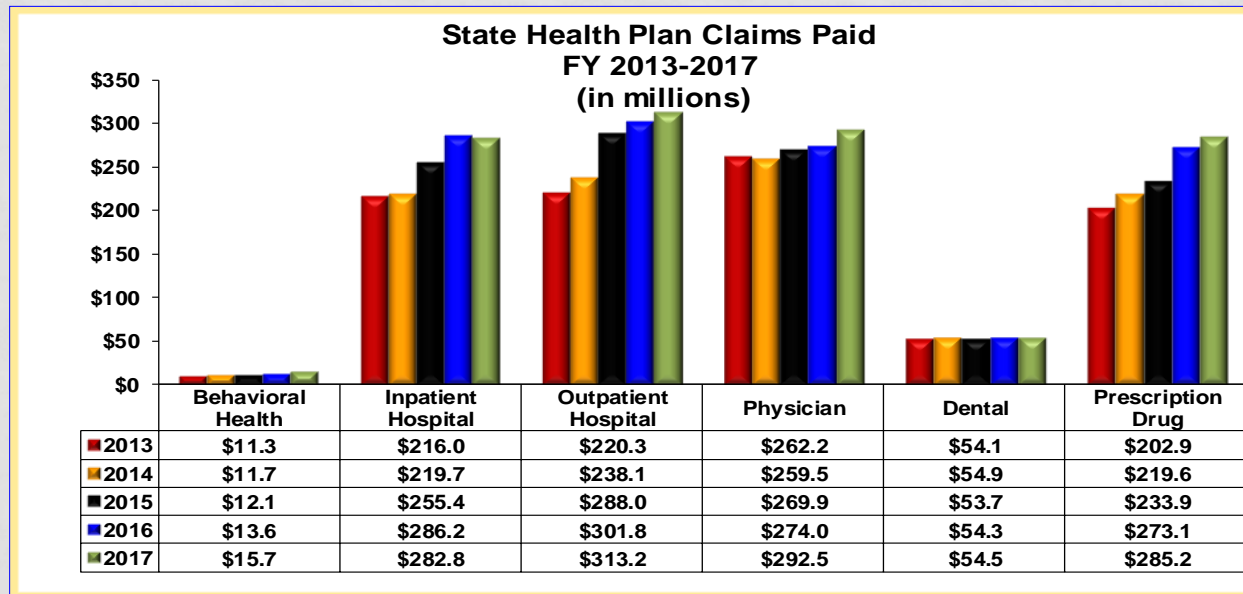
UTILIZATION - MULTIPLE CHRONIC CONDITIONS

- **11% more spend on Diabetes, Orthopedics, or Cardiac** in FY17 over FY16
 - \$304.4 million spent in FY17
- **23,932 members** with these conditions **drove 37% of total plan claims**



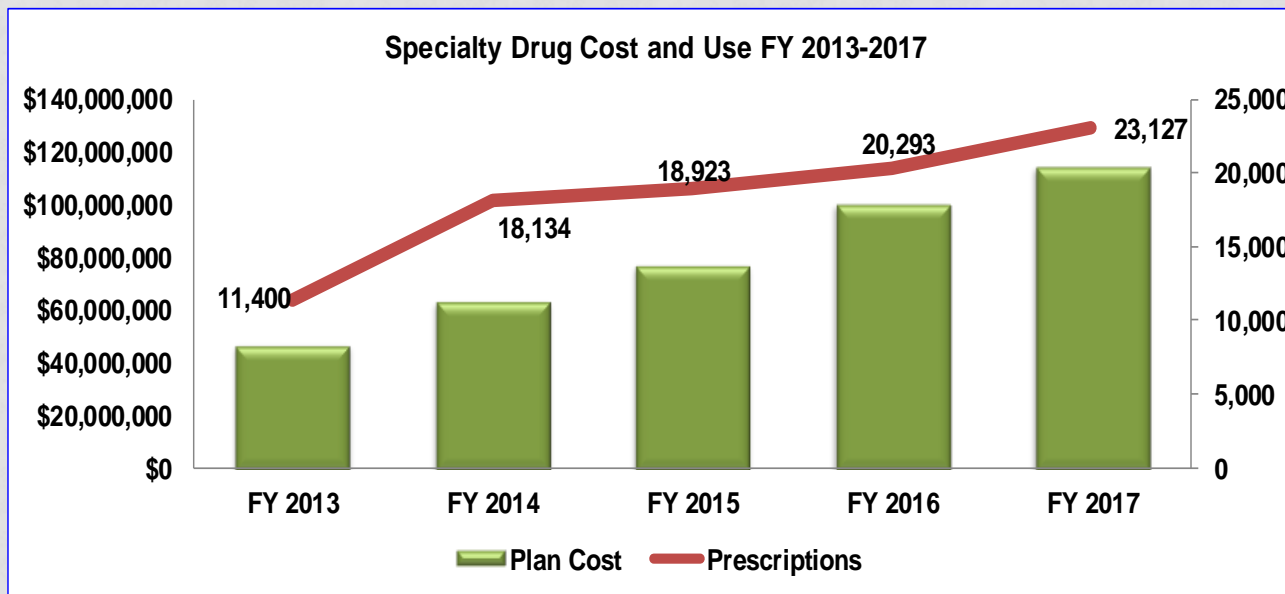
UNIT COST INCREASE

- **Unit cost increase** of individual services year over year influences trend levels
- **Drivers**
 - 7.4% increase in **Professional services**
 - 9.7% increase in **Pharmacy**
- **Trend Impact: 2-3% of total claims**



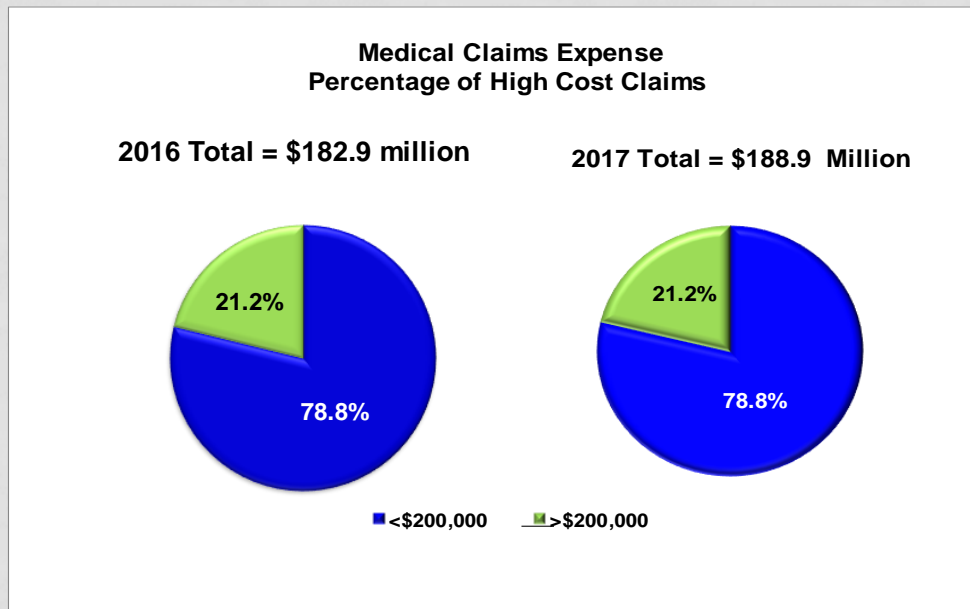
SPECIALTY DRUGS

- **Specialty Drugs** are high cost drugs in Tier 4 and are expensive
- Accounted for **38.7% of pharmacy cost** in FY 17, up from 36% in FY16
- **Top ten specialty drugs** represent 16.8% of total pharmacy spend
 - 8 of these had double digit % PMPM plan cost increases
- **Continued growth** of FDA approvals and pipeline expected
- **Trend Impact: 0.5-1% of total claims**



LARGE CLAIMS

- **Large claims** generally influence trend levels
- Total large claim figures remained **relatively flat** in FY17
- ***Trend Impact: Negligible***



LARGE CLAIMS – COVA CARE

- Members with **expenses exceeding \$300,000 are large claims**
 - 200 members** in FY17 accounted for **\$96 million** in total expense
 - 186 members** in FY16 accounted for **\$97 million** in total expense
- Large claim members**
 - 0.1%** of all **members**
 - 8.4%** of **total expense**
- 8% increase** in number of large claim members this year vs. 22% prior year

COVA Care Catastrophic claimants

Members

with expense exceeding \$300,000

Accounted for total expense

8.4%

FY17

VS.

9.0%

FY16

Membership in FY17



46.0% Employees
Drive **45.1%** of the expense

50.3%

= Catastrophic claimants



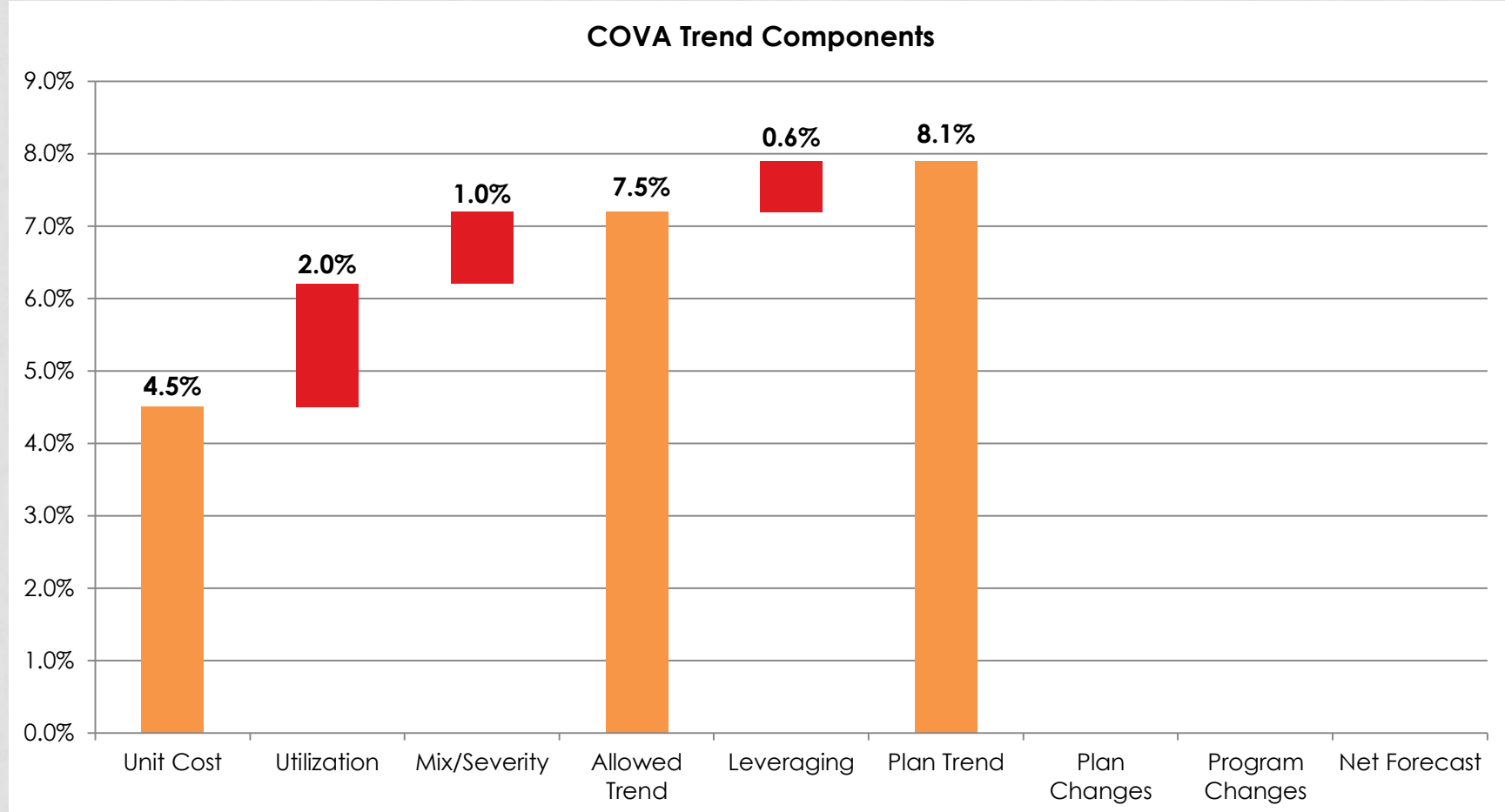
21.7% Spouses
Drive **24.7%** of the expense

32.1%

= Catastrophic claimants

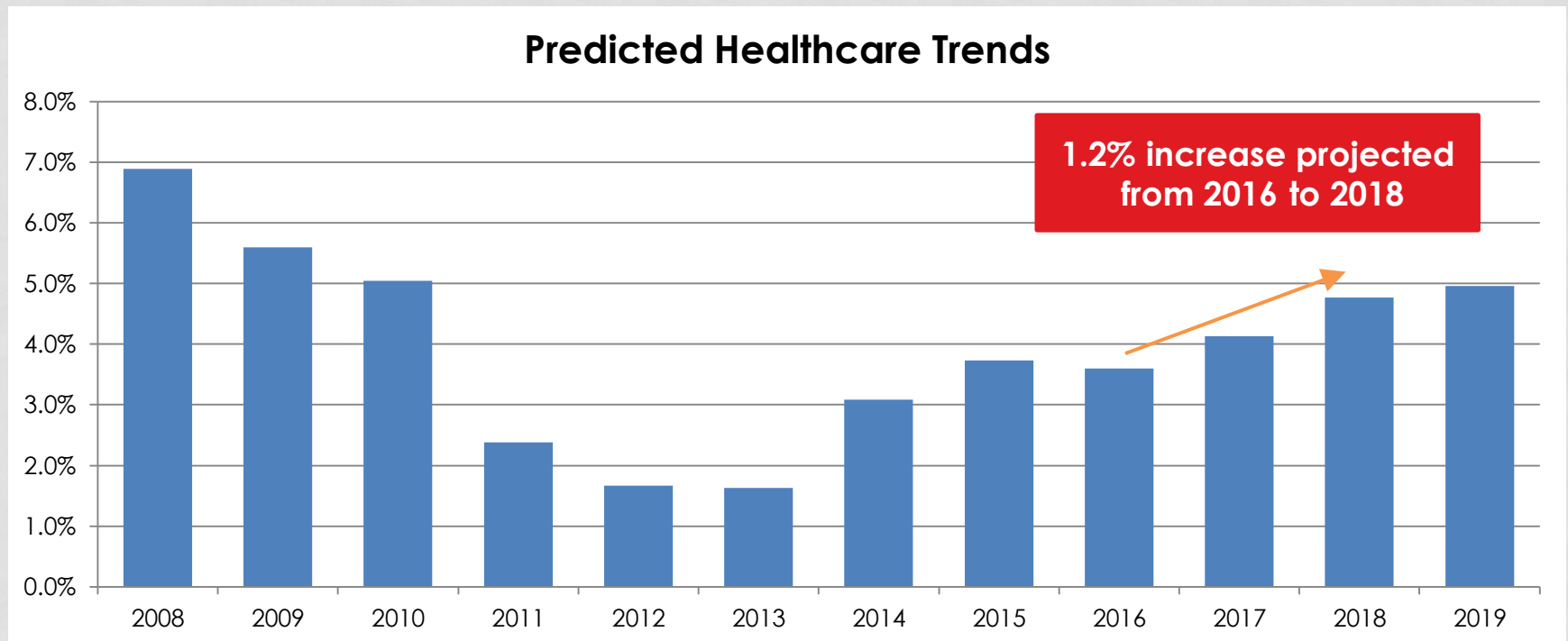
2018 PROJECTED COVA TREND BY COMPONENT

- Trends are reported differently based on what is measured



ECONOMIC MODELING PREDICTS INCREASING TRENDS

- GDP growth over the **last 5 years explains 85% of the variation** in healthcare spending for national trends¹
- Modeling projects **increasing trends** for the next 2 years



Source: <http://kff.org/health-costs/issue-brief/assessing-the-effects-of-the-economy-on-the-recent-slowdown-in-health-spending-2/>

TREND GUIDANCE

- **Trends** used for financial projections
 - Before any plan design changes
 - Does NOT include pharmacy rebates
 - Recommended by Aon, the plan's actuary

| COVA Plans | | | |
|------------|---------|-------|----------|
| Year | Medical | Rx | Combined |
| 2016–2017 | 6.2% | 11.0% | 7.4% |
| 2017–2018 | 6.7% | 12.0% | 8.1% |
| 2018–2019 | 7.3% | 12.0% | 8.5% |
| 2019–2020 | 7.3% | 12.5% | 8.7% |